

CENTRAL UTAH WATER CONSERVANCY DISTRICT  
355 W UNIVERSITY PKWY  
OREM, UT 84058



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Basic Financial Statements**

**June 30, 2005**

**(With Independent Auditors' Report Thereon)**

## **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

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## Independent Auditors' Report

The Board of Trustees  
Central Utah Water Conservancy District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Central Utah Water Conservancy District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our audit testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's Discussion and Analysis and the Required Supplementary Information, on pages 3 through 9 and 58 through 60 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. Management's Discussion and Analysis and the Required Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements and the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. Management's Discussion and Analysis and the Required Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

September 20, 2005

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Management's Discussion and Analysis

December 31, 2005 and 2004

This section of Central Utah Water Conservancy District's (District) report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the District's basic financial statements, which follow this section.

#### Financial Highlights

- The District's net assets were \$245.3 million at June 30, 2005.
- Current year property tax revenues increased 5.7% as a result of increases in taxable value of property. Motor vehicle fees, which are based on vehicle age, decreased 1.77%.
- On November 17, 2004, the District issued General Obligation (2004 Limited Tax) Refunding Bonds. The bonds were issued in the original amount of \$162,075,000, plus \$3,694,421 reoffering premium, with interest from 3% to 5%. Interest is payable semiannually beginning April 1, 2005 and thereafter on each April 1 and October 1 through 2034. Principal payments are due annually beginning April 1, 2006 and thereafter on each April 1 through 2034. Proceeds from the bond issuance were used to pay amounts outstanding on the U.S. Government Block Notice #5D and Block Notice #6. This bonding transaction represents an approximate gross savings of \$150 million and a total present value savings of approximately \$50 million. The prepayment to the U.S. Department of the Interior was made in February 2005.
- On May 19, 2005, the District issued Series 2005 Water Revenue Bonds. The bonds were issued in the original amount of \$79,725,000, plus \$1,271,025 reoffering premium, with interest from 3.9% to 5%. Interest is payable semiannually beginning October 1, 2005 and thereafter on each April 1 and October 1 through 2035. Principal payments are due annually beginning October 1, 2005 and on each October through 2035. Proceeds from the bond issuance were used to purchase water rights in Utah County, Utah.
- The District continued various capital projects during the year ended June 30, 2005. The following capital additions were recorded during the year: Uintah Basin Replacement Project, \$22.2 million; Ashley Treatment Plant Clearwell, \$2.0 million; Municipal Water Capital Facilities, \$5.0 million; and Utah Water Stock Purchases, \$10.0 million.

#### Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

(1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Management's Discussion and Analysis

December 31, 2005 and 2004

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

#### **Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

#### **Governmental Funds**

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Central Utah Project Completion Act Fund, the Debt Service Fund, and the Capital Projects Fund; all of which are considered to be major funds.

- **General Fund.** The General Fund is the operating fund of the District. Revenues from tax collections, water sales, and other sources are received into this fund. Expenditures include administrative costs and operation and maintenance of District and project facilities. Fund transfers are made from the General Fund to the other funds of the District.
- **Central Utah Project Completion Act Fund.** The Central Utah Project Completion Act Fund, a Special Revenue Fund, contains federal funds which are in most cases matched with District funds and are used for water development projects owned and approved by the U.S. Department of the Interior and authorized by the Central Utah Project Completion Act (CUPCA) in Public Law 102-575, October 30, 1992.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Management's Discussion and Analysis

December 31, 2005 and 2004

- **Debt Service Fund.** The Debt Service Fund is used to collect and pay debt service payments on the District's outstanding debt. A trustee administers debt service payments and directs the investment of reserve funds with District approval. Payments are made to bondholders and to the U.S. Bureau of Reclamation, a programmatic bureau of the U.S. Department of the Interior.
- **Capital Projects Fund.** The Capital Projects Fund administers payments for various District capital projects. This includes modifications to the District's water treatment plants and for water conveyance facilities. It is also used to modify certain federal facilities within the District's operating agreements. Funds are transferred into this fund from the General Fund.

#### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the District cannot use these funds to fund its programs.

The District maintains one fiduciary fund, which is a private purpose trust fund, as follows:

- **June Sucker Recovery Agreement Fund.** The District, along with one other state, four other federal, and three local agencies entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June Sucker, a Utah native fish on the endangered species listing. The other state, federal, and local agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Management's Discussion and Analysis

December 31, 2005 and 2004

**Government-Wide Financial Analysis.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$245.3 million at June 30, 2005.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Net Assets

Years ended June 30, 2005 and 2004

(In millions of dollars)

	<b>Governmental activities</b>	
	<b>2005</b>	<b>2004</b>
Current and other assets	\$ 101.2	77.8
Capital assets	595.3	582.8
Total assets	696.5	660.6
Current and other liabilities	23.7	28.2
Long-term liabilities outstanding	427.5	412.1
Total liabilities	451.2	440.3
Net assets:		
Invested in capital assets, net of related debt	168.0	157.9
Restricted	61.5	42.0
Unrestricted	15.8	20.4
Total net assets	\$ 245.3	220.3

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## Management's Discussion and Analysis

December 31, 2005 and 2004

The largest portion of the District's net assets (68% compared to 71% in fiscal year 2004) reflects its investment in capital assets (e.g., land, water stock, buildings and improvements, and furniture and equipment, net of accumulated depreciation), less any related debt (general obligation bonds payable and obligations under capital leases, less unspent bond proceeds) used to acquire those assets that are still outstanding. The District will service its debt through the future sale of water to customers, and other sources, such as property and motor vehicle taxes. Restricted net assets primarily consist of amounts to be used to complete the Central Utah Project, \$28.3 million and \$23.1 million at June 30, 2005 and 2004, respectively, and service future debt obligations, \$31.2 million and \$17.3 million at June 30, 2005 and 2004, respectively.

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## Changes in Net Assets

Years ended June 30, 2005 and 2004

	<b>Governmental activities</b>	
	<b>2005</b>	<b>2004</b>
Program revenues:		
Central Utah Project Completion Act	\$ 29,865,000	26,256,000
Water treatment plants and other projects	9,901,468	9,375,570
General government	146,824	706,762
General revenues:		
Property taxes	26,678,305	25,481,218
Earnings on investments	16,037,296	3,341,001
Net increase (decrease) in fair value of investments	(137,496)	83,144
Total revenues	<u>82,491,397</u>	<u>65,243,695</u>
Program expenses:		
Central Utah Project Completion Act	37,615,873	62,845,823
Water treatment plants and other projects	5,016,750	4,246,729
General government	5,171,761	5,797,082
Interest on long-term debt	9,612,752	8,277,285
Total expenses	<u>57,417,136</u>	<u>81,166,919</u>
Change in net assets	25,074,261	(15,923,224)
Net assets, beginning of year	<u>220,256,726</u>	<u>236,179,950</u>
Net assets, end of year	<u>\$ 245,330,987</u>	<u>220,256,726</u>

## **Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Management's Discussion and Analysis

December 31, 2005 and 2004

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. At June 30, 2005, the District's governmental funds reported a combined fund balance of \$84.0 million. This amount is down from \$65.8 million in the prior year primarily due to ongoing work performed on the Central Utah Project.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that is not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Undesignated balances in the General Fund are required by state law to be appropriated in the following year's budget. Fund balances of Debt Service, Capital Projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The \$5.4 million fund balance of the General Fund is primarily reserved for the following purposes: emergency project operations and maintenance, power loss, and project replacements until current year's tax collections are received. The \$10.4 million of the \$19.1 million fund balance of the Capital Projects Fund is designated for future capital projects, with the remaining \$8.7 million designated for potential future obligations.

#### **Budgetary Highlights**

During the year, the board revised the District's budget. Budget amendments were to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was an increase of \$493.3 thousand or 1% in expenditures for capital outlays. The difference between actual revenue and the final amended budget was a decrease of \$15.3 thousand or 0.4%, primarily related to the sale of excess District property. The difference between actual expenditures and the final amended budget was a decrease of \$4.2 million or 32%. This decrease primarily related to a decrease in administrative and general expenses for public affairs, and District projects for design review for a potential hydroelectric power plant, which did not occur during the year.

#### **Capital Assets and Debt Administration**

**Capital Assets** – The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for operating and maintaining facilities within the District.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Management's Discussion and Analysis

December 31, 2005 and 2004

Capital assets at June 30, 2005 and 2004 are outlined below:

### CENTRAL UTAH WATER CONSERVANCY DISTRICT

#### Capital Assets

(In millions of dollars)

		Governmental activities	
		2005	2004
Water and aqueduct rights and privileges	\$	541.5	527.7
Land and land rights		1.2	1.2
Buildings and equipment		52.6	53.9
Total capital assets, net of accumulated depreciation	\$	595.3	582.8

Additional information on the District's capital assets can be found in note 4 to the basic financial statements.

**Debt Administration** – The District maintains a schedule to retire all of its general obligation bonds by 2016. The District's debt outstanding at June 30, 2005 consists of bonds and contract obligations between the District and the U.S. Bureau of Reclamation.

### CENTRAL UTAH WATER CONSERVANCY DISTRICT

#### Outstanding Debt

(In millions of dollars)

		Governmental activities		Total change 2005-2004
		2005	2004	
General obligation and revenue bonds	\$	424.4	182.7	241.7
Contracts and block notices		8.1	242.4	(234.3)

The District's most recent ratings are as follows: Moody's Investors Service Aa3; Fitch Ratings AA+.

Additional information on the District's long-term debt can be found in note 5 to the basic financial statements.

#### Requests for Information

This financial report is designed to provide a general overview of the Central Utah Water Conservancy District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, Central Utah Water Conservancy District, 355 West University Parkway, Orem, Utah 84058.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Statement of Net Assets**

**June 30, 2005**

<b>Assets</b>	<b>Governmental activities</b>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and cash equivalents (notes 2 and 7)	\$ 17,105,501
Investments (note 2)	13,452,593
Property taxes receivable	1,731,632
Accounts receivable	1,522,038
Prepaid expenses	<u>168,568</u>
Total current assets	33,980,332
<b>Noncurrent assets:</b>	
Restricted assets:	
Cash and cash equivalents (notes 2 and 7)	60,385,857
Investments (note 2)	3,582,484
Bond issuance costs, net of accumulated amortization	3,292,323
<b>Capital assets (notes 3 and 4):</b>	
Nondepreciable capital assets:	
Water and aqueduct rights and privileges	536,484,987
Land	<u>1,222,784</u>
Depreciable capital assets, net of accumulated depreciation	<u>57,624,138</u>
Total assets	<u><u>\$ 696,572,905</u></u>

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Statement of Net Assets**

**June 30, 2005**

<b>Liabilities and Net Assets</b>		<b>Governmental activities</b>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$	8,024,300
Accrued liabilities		478,150
Accrued interest on long-term debt		3,723,407
Deferred water sales revenue		4,592,884
<b>Current portion of long-term debt:</b>		
Contract obligations to United States Bureau of Reclamation (note 5)		99,055
Bonds payable (note 5)		<u>6,991,000</u>
Total current liabilities		23,908,796
<b>Long-term liabilities, net of current portion:</b>		
Postretirement benefit liability (note 12)		1,487,500
Compensated absences		429,492
<b>Long-term debt:</b>		
Contract obligations to United States Bureau of Reclamation (note 5)		7,956,215
Bonds payable (note 5)		<u>417,459,915</u>
Total liabilities		<u>451,241,918</u>
<b>Net assets:</b>		
Investment in capital assets, net of related debt		168,013,640
<b>Restricted for:</b>		
Emergency project operations and maintenance		435,490
Future project replacements		435,490
Operation and maintenance		70,234
Payments on power loss		1,099,232
Future capital projects to complete CUPCA (note 10)		28,289,022
Future debt service		31,173,631
Unrestricted		<u>15,814,248</u>
Total net assets	\$	<u>245,330,987</u>

See accompanying notes to basic financial statements.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions	Expenses	Program revenues		Net (expense) revenue and changes in net assets
		Charges for services	Operating grants and contributions	
Total				
Total governmental activities				
General District activities:				
Central Utah Project:				
Central Utah Project Completion Act (note 10)	\$ 25,320,138	—	29,865,000	4,544,862
Other Central Utah Project nonreimbursable expenses	1,885,431	—	—	(1,885,431)
Capital outlay	9,316,303	—	—	(9,316,303)
District projects	1,094,001	—	—	(1,094,001)
Water rights	—	—	—	—
Total Central Utah Project	37,615,873	—	29,865,000	(7,750,873)
Water treatment plants and other projects	5,016,750	9,901,468	—	4,884,718
General government	5,171,761	146,824	—	(5,024,937)
Interest on long-term debt	9,612,752	—	—	(9,612,752)
Total District	\$ 57,417,136	10,048,292	29,865,000	(17,503,844)
General revenues:				
Property taxes				26,678,305
Earnings on investments				16,037,296
Net decrease in fair value of investments				(137,496)
Total general revenues				42,578,105
Change in net assets				25,074,261
Net assets, beginning of year				220,256,726
Net assets, end of year				\$ 245,330,987

See accompanying notes to basic financial statements.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Governmental Funds Balance Sheet

June 30, 2005

	Assets	General	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
Assets:						
Cash and cash equivalents (notes 2 and 7)		\$ 7,209,339	—	—	9,897,661	17,107,000
Investments (note 2)		—	—	—	13,451,094	13,451,094
Property taxes receivable		1,731,632	—	—	—	1,731,632
Accounts receivable		641,962	—	—	880,076	1,522,038
Prepaid expenses		168,254	—	—	—	168,254
Restricted assets:						
Cash and cash equivalents (notes 2 and 7)		2,040,758	30,754,264	29,633,382	—	62,428,404
Investments (note 2)		—	—	1,540,249	—	1,540,249
Total assets		\$ 11,791,945	30,754,264	31,173,631	24,228,831	97,948,671



# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Governmental Funds Balance Sheet

June 30, 2005

Liabilities and Fund Balances	General	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
Liabilities:					
Accounts payable	\$ 450,512	2,465,242	4,500	5,104,046	8,024,300
Accrued liabilities	478,150	—	—	—	478,150
Deferred water sales revenue	4,592,884	—	—	—	4,592,884
Deferred property tax revenue	854,695	—	—	—	854,695
Total liabilities	6,376,241	2,465,242	4,500	5,104,046	13,950,029
Fund balances (note 7):					
Reserved for:					
Emergency project operations and maintenance	435,490	—	—	—	435,490
Future project replacements	435,490	—	—	—	435,490
Payments on power loss	1,099,232	—	—	—	1,099,232
Operations and maintenance	70,234	—	—	—	70,234
Unreserved:					
Designated:					
Contingency reserve	—	—	—	8,675,313	8,675,313
Liability insurance (note 7)	1,822,346	—	—	—	1,822,346
Facility repairs	434,882	—	—	—	434,882
Future capital projects	191,007	—	—	10,449,472	10,640,479
Undesignated	927,023	28,289,022	31,169,131	—	60,385,176
Total fund balances	5,415,704	28,289,022	31,169,131	19,124,785	83,998,642
Total liabilities and fund balances	\$ 11,791,945	30,754,264	31,173,631	24,228,831	97,948,671

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets**

June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances – governmental funds	\$ 83,998,642
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$662,780,538 and the accumulated depreciation is \$67,448,628	595,331,910
Property tax revenue is recognized when earned (claim to resources established) rather than when “available.” Uncollected amounts from prior levy years have been recorded as deferred revenue in the funds, but would have been recorded as revenue in government-wide financial statements	854,695
Postretirement benefit obligation is recognized as a liability in the funds when due and mature, rather than when incurred	(1,487,500)
Obligations for compensated absences are recognized as a liability in the funds when due and mature, rather than as earned by employees	(429,492)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$3,405,851 and accumulated amortization is \$113,528	3,292,323
Long-term debt, including bonds payable and accrued interest, is not due and payable in the current period and, therefore, is not reported in the funds	(436,229,591)
Total net assets – governmental activities	<u>\$ 245,330,987</u>

See accompanying notes to basic financial statements.

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2005

	General	CUPCA Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenues:</b>					
Property taxes	\$ 27,143,075	—	—	—	27,143,075
Water sales	9,901,468	—	—	—	9,901,468
Interest	318,266	617,908	14,619,378	481,744	16,037,296
Net decrease in fair value of investments	—	—	(43,127)	(94,369)	(137,496)
Central Utah Project Completion Act (note 10)	—	29,865,000	—	—	29,865,000
Other	146,824	—	—	—	146,824
<b>Total revenues</b>	<b>37,509,633</b>	<b>30,482,908</b>	<b>14,576,251</b>	<b>387,375</b>	<b>82,956,167</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Central Utah Project Completion Act (note 10)	—	25,320,138	—	—	25,320,138
Other Central Utah Project nonreimbursable expenses	1,885,431	—	—	—	1,885,431
Water rights	—	—	—	—	—
Water treatment plants and other projects	1,375,247	—	—	—	1,375,247
Administrative and general	3,968,994	—	—	—	3,968,994
District projects	1,094,001	—	—	—	1,094,001
Other	—	—	658,441	—	658,441
Bond issuance expense	—	—	3,405,851	—	3,405,851
Debt service:					
Principal (note 5)	—	—	7,415,616	—	7,415,616
Interest (note 5)	—	—	8,415,601	—	8,415,601
Capital outlay	565,318	—	—	17,766,642	18,331,960
<b>Total expenditures</b>	<b>8,888,991</b>	<b>25,320,138</b>	<b>19,895,509</b>	<b>17,766,642</b>	<b>71,871,280</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>28,620,642</b>	<b>5,162,770</b>	<b>(5,319,258)</b>	<b>(17,379,267)</b>	<b>11,084,887</b>
<b>Other financing sources (uses):</b>					
Operating transfers in (out)	(29,125,181)	—	12,043,640	17,081,541	—
Refunding bonds issued	—	—	246,987,915	—	246,987,915
Payment to the refund bond escrow agent	—	—	(239,838,521)	—	(239,838,521)
<b>Net changes in fund balances</b>	<b>(504,539)</b>	<b>5,162,770</b>	<b>13,873,776</b>	<b>(297,726)</b>	<b>18,234,281</b>
<b>Fund balances, beginning of year</b>	<b>5,920,243</b>	<b>23,126,252</b>	<b>17,295,355</b>	<b>19,422,511</b>	<b>65,764,361</b>
<b>Fund balances, end of year</b>	<b>\$ 5,415,704</b>	<b>28,289,022</b>	<b>31,169,131</b>	<b>19,124,785</b>	<b>83,998,642</b>

See accompanying notes to basic financial statements.

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

Year ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$	18,234,281
--	----	------------

Governmental funds report capital outlays as expenditures.

However, in the government-wide financial statements, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 9,010,218		
Depreciation expense	<u>(4,019,419)</u>		4,990,799

Expenses related to postretirement benefit costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

(132,700)

Expenses related to compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

(27,912)

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. In the statement of activities, issuance of debt is recorded as long-term liabilities, while repayment of bond principal is a reduction of the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items are as follows:

General obligation bond proceeds	(246,987,915)		
Bond issuance costs	3,405,851		
Payments to refund bond escrow agent	239,838,521		
Principal payments	5,134,483		
Change in accrual for interest on long-term debt	1,197,151		
Amortization of bond issuance costs	<u>(113,528)</u>		2,474,563

Collections of prior year taxes exceeding the uncollected current year taxes

(464,770)

Change in net assets of governmental activities

\$ 25,074,261

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Statement of Fiduciary Net Assets**

**June 30, 2005**

	<b>Private Purpose Trust Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 6,388,882
Red Butte Dam reserve	<u>—</u>
Total assets	<u>6,388,882</u>
<b>Liabilities:</b>	
Accounts payable	<u>537,877</u>
Total liabilities	<u>537,877</u>
Total net assets held for Red Butte Dam	<u><u>\$ 5,851,005</u></u>

See accompanying notes to basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Statement of Changes in Fiduciary Net Assets**

**Year ended June 30, 2005**

	<b>Private Purpose Trust Fund</b>
<b>Additions:</b>	
June Sucker Recovery Program contributions	\$ 6,294,584
Interest on investments	131,807
Total additions	<u>6,426,391</u>
<b>Deductions:</b>	
June Sucker Recovery Program expense	385,139
Red Butte Dam expense	762,154
Total deductions	<u>1,147,293</u>
Change in fiduciary net assets	5,279,098
Net assets, beginning of year	<u>571,907</u>
Net assets, end of year	<u>\$ 5,851,005</u>

See accompanying notes to basic financial statements.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### (1) Summary of Significant Accounting Policies

The Central Utah Water Conservancy District (the District) prepares its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for governmental entities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are described below in subsequent sections of this note.

#### (a) Reporting Entity

The District was created by the Fourth District Court under authority of the Water Conservancy Act (Utah Code 73-9) in 1964. The purpose of the District, as stated in the court decree, is to acquire the maximum supplies of water for the District and to achieve the optimum development, distribution, and utilization of water resources available for agriculture, domestic, power generating, manufacturing, recreational, and other beneficial uses. The ten counties in the District are: Salt Lake, Utah, Uintah, Duchesne, Sanpete, Wasatch, Piute, and portions of Juab, Garfield, and Summit counties.

The District's board of trustees (the Board), comprised of 18 individuals, is the governing authority for the District. The Board members are nominated by county commissioners, selected by the Governor, and confirmed by the State Senate. The District is an independent reporting entity and is not a component unit of any other government. The Board establishes District policies, approves the budget, is responsible for fiscal matters, is authorized to issue bonds, incur debt, and to levy ad valorem taxes.

All funds, including all financial activities over which the Board has financial accountability, are included in this report. The District's financial reporting entity is comprised of all funds of the District, which constitute the primary government.

In determining the financial reporting entity, the District complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the District appoints a voting majority of the units' board and the District is either able to impose its will on the unit or a financial benefit or burden relationship exists. The District has no component units.

#### (b) Basis of Presentation

##### Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the District as a whole. They include all assets and liabilities of the District, except those related to fiduciary funds. These statements include all governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied in the government-wide financial statements unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

## **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

### **Notes to Basic Financial Statements**

June 30, 2005

#### **Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. The District's funds are organized into two categories: governmental and fiduciary. Major funds are presented separately in the fund financial statements, while nonmajor funds are presented in aggregation. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Further, any other governmental fund may be reported as a major fund if the government's officials believe it is particularly important to the financial statement users. All of the District's governmental funds are considered major funds.

The governmental funds and fiduciary fund of the District are described below:

#### **Governmental Funds**

##### ***General Fund***

The General Fund is the primary operating fund of the District. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

##### ***CUPCA Fund***

The CUPCA Fund is used to account for resources restricted for the completion of the Central Utah Project, which includes various water features throughout central Utah.

##### ***Debt Service Fund***

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the District. Ad valorem taxes are used for the payment of principal and interest on the District's judgment.

##### ***Capital Projects Fund***

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.



## **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

### **Notes to Basic Financial Statements**

June 30, 2005

#### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements, as the District cannot use these funds to finance its programs. As of June 30, 2005, the District has one fiduciary fund, the June Sucker Recovery Agreement Fund, which is a private purpose trust fund.

#### ***June Sucker Recovery Agreement Fund***

The District, along with other state and federal agencies, entered into an agreement with the U.S. Fish and Wildlife Service to rehabilitate the June Sucker, a Utah native fish on the endangered species listing. The other state and federal agencies participate in the program and contribute financially. The District administers the funds on behalf of those who are a party to the agreement.

#### **(c) *Measurement Focus and Basis of Accounting***

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

#### **Measurement Focus**

On the government-wide statement of net assets and the statement of activities, governmental activities are presented using the economic resources measurement focus and accrual basis of accounting. Accordingly, these statements recognize the effect of exchange and exchange-like transactions when the exchange takes place.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The statement of fiduciary net assets and the statement of changes in fiduciary net assets are presented using the economic resources measurement focus and accrual basis of accounting.

#### **Basis of Accounting**

In the government-wide statement of net assets and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from imposed nonexchange transactions, excluding property taxes, are recognized in the period when enforceable legal claim has arisen or when resources are received, whichever is first. Property tax revenue is recorded in the period levied, net of an allowance for uncollectible amounts, if any. Program revenues for CUPCA consist of contributions from the U.S. Department of the Interior. Program revenues for water treatment plants and other projects consist of charges to customers for services provided.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

In the fund financial statements, governmental funds are presented on the modified-accrual basis of accounting. Under this modified-accrual basis of accounting, expenditures other than debt service expenditures are recognized when a fund liability is incurred. Debt service expenditures, including principal and interest on long-term debt and issue costs paid out of debt proceeds, are reported as expenditures when the payment is due. All liabilities of governmental type funds are expected to be liquidated with expendable available resources. Under the modified-accrual basis of accounting, all exchange revenues are recognized in the accounting period in which they become available and measurable. Revenue is considered available if it can be collected within a period of 60 days following the close of a fiscal year. Water treatment and delivery revenues, as well as property and other tax revenues, are susceptible to accrual. Accounts receivable are recorded for water treatment and delivery revenues when services are rendered, and for property and other tax revenues when levied, with the unrecognized portion reported as deferred revenue.

The fiduciary funds financial statements are presented using the accrual basis of accounting.

**(d) Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(e) Cash and Cash Equivalents**

The District considers all highly liquid investments including restricted assets with maturities of three months or less when purchased to be cash and cash equivalents, which totaled \$79,485,482 as of June 30, 2005.

**(f) Investments**

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments, is recognized as revenue (expense) in the governmental activities statement of activities and the governmental fund statements.

**(g) Inventory and Prepaid Assets**

Inventories are valued at the lower of cost, using the first-in, first-out method, or replacement market value. The costs of inventories and assets acquired prior to their use are recorded as expenses/expenditures when consumed rather than when purchased.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

**(h) Capital Assets**

In the government-wide financial statements, capital assets are valued at historical cost, except for donated fixed assets, which are reported at their estimated fair value at the date of donation. Costs incurred for repairs and maintenance that do not extend the useful life of an asset are recorded as expense in the statement of activities. Additions, improvements, and betterments that provide future benefit and exceed the District's capitalization threshold for capital assets of \$5,000 are recorded as capital assets in the statement of net assets.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives is from 3 to 30 years. Water and aqueduct rights and privileges extend into perpetuity and, accordingly, are not depreciated.

In the fund financial statements, costs related to capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**(i) Long-Term Liabilities**

All long-term debt and other long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. The long-term debt consists primarily of general obligation and revenue bonds and U.S. government obligations. Repayment of principal is recorded as a reduction of the liability, and interest expense is recorded as incurred.

Long-term debt and other long-term liabilities are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures in the Debt Service Fund when due and payable.

**(j) Net Asset Classifications**

In the government-wide financial statements, net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted net assets* – consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

### **Notes to Basic Financial Statements**

**June 30, 2005**

Governmental fund equity is classified as fund balance. Fund balance is classified as either reserved or unreserved, with unreserved further split between designated and undesignated. Amounts are classified as reserved when amounts are required to be reserved for a specific purpose, either through legislation or third-party contracts. Unreserved amounts can be designated for a specific purpose by the board of trustees.

**(k) Interfund Transactions**

Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions are reported as operating transfers. Interfund transactions between funds within governmental activities are eliminated in the statement of net assets and statement of activities.

**(l) Property Tax Revenue**

Property tax revenue is collected and remitted by the various county treasurers as agents for the District.

State of Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year the taxes remain delinquent, the County advertises and sells the property at a tax sale. Therefore, property taxes are ultimately collectible and no allowance for doubtful accounts is considered necessary.

In the fund financial statements, property tax revenue is considered available and recorded as revenue in the period levied to the extent it is collected within 60 days following the close of a fiscal year-end. Property tax revenue is recorded in the government-wide financial statements in the period levied.

**(m) Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for governmental type activities. In the fund financial statements, expenditures are classified by character for governmental type activities. When an expense is incurred for which both restricted and unrestricted resources are available, the unrestricted resources are first applied.

**(n) Compensated Absences**

The District's policy regarding vacation time permits employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as an accrued liability in the government-wide statement of net assets when earned. The liability for these compensated absences is recognized in the fund financial statements as payments come due each period.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### (2) Deposits and Investments

#### (a) Deposits

The District maintains a cash and investment pool that is available for use by the General and Capital Projects Funds. Income from the investment of pooled cash is allocated based on the average ending balance of the General and Capital Projects Funds to the investment pool. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents" and "investments."

State law requires that the District follow the requirements of the Utah Money Management Act (the Act) (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the District to deposit funds in a "qualified depository," defined as any financial institution that has been certified by the Utah State Commissioner of Financial Institutions.

The Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Cash, cash equivalents, and investments at June 30, 2005 consist of:

Cash deposits	\$ 21,870,560
Cash equivalents and investments	<u>72,656,187</u>
Total cash, cash equivalents, and investments	<u>\$ 94,526,747</u>

These amounts are included in the following balances on the statement of net assets as follows:

Unrestricted:	
Cash and cash equivalents	\$ 17,107,000
Investments	13,451,094
Restricted:	
Cash and cash equivalents	62,428,404
Investments	<u>1,540,249</u>
Total cash, cash equivalents, and investments	<u>\$ 94,526,747</u>

At June 30, 2005, the total carrying amount of the District's restricted and unrestricted cash deposits (net of outstanding checks) was \$21,870,560, and the bank balances were \$21,870,560. Of the bank balances, \$100,000 was covered by federal depository insurance and \$21,770,560 was uninsured. No deposits are collateralized and collateralization is not required by state statute.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

Restricted cash and cash equivalents and investments consisted of the following at June 30, 2005:

	<u>General Fund</u>	<u>CUPCA Fund</u>	<u>Debt Service Fund</u>
Emergency Reserve Fund (note 7)	\$ 435,556	—	—
Replacement Reserve Fund (note 7)	435,556	—	—
Power Loss Reserve	1,099,401	—	—
O&M Reserve	70,245	—	—
Central Utah Project Completion Act (note 8)	—	30,754,264	—
Debt Service Fund	—	—	31,173,631
	<hr/>	<hr/>	<hr/>
Total restricted cash and cash equivalents and investments	\$ 2,040,758	30,754,264	31,173,631

**(b) Investments**

The following summarizes the District's investments, including cash equivalents, recorded at fair value, at June 30, 2005:

	<u>General</u>	<u>CUPCA</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total (fair value)</u>	<u>Total (at cost)</u>
Unrestricted investments:						
Repurchase agreements	\$ (132,540)	—	—	165,653	33,113	33,113
Utah Public Treasurer's Investment Fund	7,290,957	—	—	9,732,008	17,022,965	17,022,965
Corporate bonds	—	—	—	13,451,094	13,451,094	13,494,200
Restricted investments:						
U.S. government securities	—	—	17,287,304	—	17,287,304	17,427,827
Utah Public Treasurer's Investment Fund	2,040,758	8,934,626	12,346,079	—	23,321,463	23,332,274
Corporate bonds	—	—	1,540,248	—	1,540,248	1,540,248
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 9,199,175	8,934,626	31,173,631	23,348,755	72,656,187	72,850,627

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## **Notes to Basic Financial Statements**

**June 30, 2005**

The District's investments are categorized in the following table to give an indication of the level of custodial credit risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the District's name. The following is a summary of investments by category at June 30, 2005:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Uncategorized</u>	<u>Carrying value</u>
Repurchase agreements	\$ —	—	33,113	—	33,113
U.S. government securities	—	17,287,304	—	—	17,287,304
Corporate bonds	14,991,342	—	—	—	14,991,342
Utah Public Treasurer's Investment Fund	—	—	—	40,344,428	40,344,428
Total investments	<u>\$ 14,991,342</u>	<u>17,287,304</u>	<u>33,113</u>	<u>40,344,428</u>	<u>72,656,187</u>

The Utah Public Treasurer's Investment Fund is a pooled investment fund managed by the Utah State Treasurer. The fair value of the District's position in the pool is equal to the value of the pool shares.

### **(3) Water and Aqueduct Rights and Privileges**

Under the provisions of the contract between the District and the United States Department of the Interior, Bureau of Reclamation (the Bureau), the title to project works constructed or acquired by the Bureau shall remain with the Bureau notwithstanding transfer of the care, operation, and maintenance of said works to the District. The contract further provides that the District shall have the permanent right to use and dispose of project water as such water is made available to it pursuant to development block notices and in compliance with applicable Reclamation Law. When all of the project water of a project has been made available, the District shall thereafter have the permanent right to the annual water yield from such project subject to certain rights reserved for the United States as provided in the contract.

Water and aqueduct rights and privileges have been capitalized at the amounts originally payable to the Bureau for development blocks completed (note 5) and other payments made directly to the Bureau.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

Water and aqueduct rights and privileges included in the government-wide statement of net assets as of June 30, 2005 are comprised as follows:

Block notice number		
1	21,400 acre-feet of water from Starvation Reservoir for irrigation purposes; issued June 26, 1970	\$ 4,698,100
1A	15,100 acre-feet of water from Starvation Reservoir for irrigation purposes; issued April 1, 2000	2,340,500
1B	3,000 acre-feet of water from Starvation Reservoir for irrigation purposes; issued August 2, 2004	285,000
2	200 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued May 29, 1975	255,000
	Municipal and industrial amendment; issued March 19, 1980	123,310
	Municipal and industrial amendment; issued January 1, 1988	15,690
	Municipal and industrial amendment; issued June 23, 1997	652,424
3	300 acre-feet of water from Starvation Reservoir for municipal, domestic, and miscellaneous purposes; issued December 13, 1979	578,000
	Municipal and industrial amendment; issued January 1, 1988	13,000
	Municipal and industrial amendment; issued June 23, 1997	978,636
4A	11,000 acre-feet of water from project water for municipal, industrial, and miscellaneous purposes; issued May 16, 1987	14,329,000
	Municipal and industrial amendment; issued January 1, 1988	1,459,000
	Municipal and industrial amendment; issued May 8, 1995	14,754,160
	Municipal and industrial amendment; issued June 23, 1997	27,011,160
4B	9,000 acre-feet of water from project water and costs of additional facilities for municipal, industrial, and miscellaneous purposes; issued November 12, 1987	19,447,000
	Municipal and industrial amendment; issued May 8, 1995	5,542,040
	Municipal and industrial amendment; issued June 23, 1997	22,100,040
Special Block Notice 1	260 acre-feet of water from Strawberry Reservoir for industrial and miscellaneous purposes; issued November 12, 1987	512,000
	Municipal and industrial amendment; issued June 7, 1995	209,906
	Municipal and industrial amendment; issued June 23, 1997	638,445
Special Block Notice 2	5,000 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued March 31, 1995	22,030,650
	Municipal and industrial amendment; issued June 23, 1997	4,129,950
5A	13,800 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued May 30, 1997	72,203,256



**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2005**

<b>Block notice number</b>		
5B	2,400 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued April 1, 2000	\$ 12,557,102
5C	7,900 acre-feet of water from Jordanelle Reservoir for municipal and industrial purposes; issued June 24, 2002	20,000,000
5D	1,590 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2003	6,145,589
6	43,300 acre-feet of water from Strawberry Reservoir for municipal and industrial purposes; issued June 30, 2004	<u>156,274,608</u>
	Total block notices	409,283,566
	Water rights in Jordanelle Aqueduct System	10,000,000
	Water rights in Utah Lake (85,000 acre-feet)	13,940,000
	Water rights of the Geneva Steel District	79,725,000
	MWD Conveyance Facility	<u>5,000,000</u>
	Total water rights and privileges (note 4)	517,948,566
	Aqueduct rights and privileges (note 4)	<u>23,536,420</u>
	Total	<u><u>\$ 541,484,986</u></u>

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### (4) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2005 is as follows:

	Balances, June 30, 2004	Additions	Deletions	Balances, June 30, 2005
Nondepreciable capital assets:				
Water rights and privileges	\$ 505,388,507	80,010,000	(72,449,940)	512,948,567
Aqueduct rights and privileges	23,536,420	—	—	23,536,420
Land, rights, and water stock	1,222,784	—	—	1,222,784
Total nondepreciable capital assets	530,147,711	80,010,000	(72,449,940)	537,707,771
Depreciable capital assets:				
MWD Conveyance Facility	—	5,000,000	—	5,000,000
Jordenelle Hydropower	—	150,147	—	150,147
Jordan Valley Water Treatment Plant	36,996,806	—	—	36,996,806
Utah Valley Water Treatment Plant	34,035,470	877,343	—	34,912,813
Ashley Valley Water Treatment Plant	13,369,559	2,668,809	—	16,038,368
Jordan Terminal Reservoir (note 8)	18,784,442	—	—	18,784,442
Duchesne Valley Water Treatment Plant	6,780,543	24,164	—	6,804,707
District office facilities	4,607,356	197,547	(61,743)	4,743,160
Vehicles and other equipment	1,622,114	126,687	(106,479)	1,642,322
Total depreciable capital assets	116,196,290	9,044,697	(168,222)	125,072,765
Accumulated depreciation:				
Treatment plants and reservoir	(61,000,066)	(3,641,502)	—	(64,641,568)
Office facilities	(1,188,177)	(249,246)	61,743	(1,375,680)
Vehicles	(1,380,148)	(157,710)	106,479	(1,431,379)
Total accumulated depreciation	(63,568,391)	(4,048,458)	168,222	(67,448,627)
Depreciable capital assets, net	52,627,899	4,996,239	—	57,624,138
Capital assets, net	\$ 582,775,610	85,006,239	(72,449,940)	595,331,909

Depreciation expense of \$4,048,458 related to treatment plants and reservoirs is allocated to water treatment plants and other projects in the statement of activities. Depreciation expense of \$406,956 related to office facilities and vehicles is recorded as expense of the general government in the statement of activities, as the related capital assets essentially serve all functions.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

#### (5) Contract Obligations and Long-Term Debt

Under terms of an original contract between the District and the Bureau of Reclamation (Bureau) for the construction of facilities of the Bonneville Unit of the Central Utah Project, the District agreed to pay the Bureau the project repayment obligation of \$130,673,000, plus 20% for possible increases in construction costs, as project facilities are completed and the water from these project facilities becomes available for use. The Bureau establishes developmental blocks and apportions to each block an appropriate part of the District's repayment obligations based on the nature of the water use therein. Any block notice issued with respect thereto is subject to adjustment, depending on the facilities finally constructed, and on the allocation of construction costs and allotments of the project water to irrigation and municipal and industrial uses as made by the United States Government in accordance with Reclamation Law. The District's original repayment obligation of \$130,673,000 was increased by 20% to \$156,808,000 for increases resulting from price increases for construction of project works. The District's repayment obligation is based on the Definite Plan Report dated August 1964.

Due to substantial increases in the estimated costs to complete the Bonneville Unit of the Central Utah Project, the District negotiated a supplemental repayment contract with the Bureau that was approved by the District voters in 1985. The 1985 Supplemental Repayment Contract does not alter the original repayment contract noted in the preceding paragraph and provides for an additional \$335,000,000 plus a maximum of 10% for cost increase to be paid by the District.

As projects are completed and block notices are issued under the above-described repayment contracts, the District assumes full responsibility for repayment of such debt. Under terms of the repayment contracts, 34% of the debt for municipal and industrial water is to be repaid from District-assessed property tax revenues. The source of repayment for the remaining 66% of the debt is anticipated to be generated from water usage fees arising from municipal and industrial users. It is the District's anticipation that such usage contracts will be entered into as projects are completed; however, any shortfall arising from an inability to generate user fees will be the responsibility of the District. Such debt is generally to be repaid over a period not to exceed a 50-year term at an interest rate not to exceed 3.222%.

*Debt Disclosures* – The District and the Bureau amended the repayment contract in fiscal years 2005, 2002, 2000, 1999, 1998, and 1997, which allowed the District to prepay the Bureau for Block Notices originally issued. The actual amount prepaid to retire the original principal balance of \$483,916,350 was \$316,424,510. Below is a listing of the present value of the original prepayment amounts:

Prepayment period	Principal (P)	Interest (I)	(P + I)
2005 Prepayment	\$ 234,524,940	188,883,426	423,408,366
2002 Prepayment	41,333,796	35,061,917	76,395,713
2000 Prepayment	12,557,102	11,509,184	24,066,286
1999 Prepayment	2,388,685	7,204,709	9,593,394
1998 Prepayment	127,626,496	109,519,843	237,146,339
1997 Prepayment	65,485,331	46,727,369	112,212,700
Totals	\$ 483,916,350	398,906,448	882,822,798

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

The amount prepaid will be applied against the District's total outstanding contractual block notice obligation as 50 annual credits. Certain bond issues require the establishment of a bond service fund and bond reserve fund in amounts as indicated in the respective bond agreements.

### *Current Refunding*

In November 2004, the District issued \$162,075,000 of Series 2004 A, B, and C bonds to prepay Block Notices #5D and #6.

### *Advance Refundings*

In previous years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's basic financial statements.

The foregoing contract obligations, which represent block notices issued on water made available to the District to date and obligations for Utah Lake water rights, are recorded as long-term debt in the government-wide statement of net assets, and principal and interest payments are made from the Debt Service Fund. All obligations and principal and interest payments are included and reported as part of the government-wide financial statements.

A summary of changes in general long-term debt is as follows:

	<u>June 30,</u> <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2005</u>
General obligation and revenue bonds	\$ 182,695,274	246,797,641	(5,042,000)	424,450,915
U.S. government obligations	<u>242,387,693</u>	<u>(234,239,940)</u>	<u>(92,483)</u>	<u>8,055,270</u>
	<u>\$ 425,082,967</u>	<u>12,557,701</u>	<u>(5,134,483)</u>	<u>432,506,185</u>

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

A summary of payments and balances for the year ended June 30, 2005 is as follows:

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 1 – issued in the original amount of \$4,698,100 in 1970; annual payments of principal only of \$18,620 through 2021, then \$960,395 through 2025	\$ 18,620	—	4,139,500
Block Notice 1A – issued in the original amount of \$2,340,500 in 2000; annual payments of principal only of \$46,810 through 2050	46,810	—	2,106,450
Block Notice 1B – issued in the original amount of \$285,000 in 2005; annual payments of principal only of \$5,700 through 2055	—	—	285,000
Block Notice 2 – issued in the original amount of \$255,000 in 1975; with an additional \$123,310 added in 1980, an additional \$15,690 added in 1988, and an additional \$652,424 added in 1997; interest at 3.222%; annual payments of principal and interest of \$65,606 through 2015	46,286	19,320	553,348
Block Notice 3 – issued in the original amount of \$578,000 in 1979; with an additional \$13,000 added in 1988 and an additional \$978,636 added in 1997; interest at 3.222%; annual payments of principal and interest of \$84,608 through 2021	49,349	35,259	1,044,962
Block Notice 4A – issued in the original amount of \$14,329,000 in 1987; with an additional \$1,459,000 added in 1988, an additional \$14,754,160 added in 1995, and an additional \$27,011,160 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,524,854 through 2035	944,704	1,580,150	48,097,812

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice 4B – issued in the original amount of \$19,447,000 in 1987; with an additional \$5,542,040 added in 1995 and an additional \$22,100,040 added in 1997; interest at 3.222%; annual payments of principal and interest of \$2,041,688 through 2035	\$ 763,922	1,277,766	38,893,621
Block Notice 5A – issued in the original amount of \$72,203,256 in 1997; annual payments of principal and interest of \$2,834,316	724,838	2,109,978	64,746,247
Block Notice 5B – issued in the original amount of \$12,557,102 in 2000; annual payments of principal and interest of \$501,382	128,222	373,160	11,453,403
Block Notice 5C – issued in the original amount of \$41,333,796 in 2003; annual payments of principal and interest of \$1,697,683	434,159	1,263,524	38,781,347
Block Notice 5D – issued in the original amount of \$8,319,087 in 2003; annual payments of principal and interest of \$345,198	88,279	256,919	7,885,610
Block Notice 6 – issued in the original amount of \$226,551,051 in 2004; annual payments of principal and interest of \$9,501,508	9,501,508	—	217,049,543
Special Block Notice 1 – issued in the original amount of \$512,000 in 1987; with an additional \$209,906 added in 1996 and an additional \$638,445 added in 1997; interest at 3.222%; annual payments of principal and interest of \$57,907 through 2037	20,335	37,572	1,145,774

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Special Block Notice 2 – issued in the original amount of \$22,030,650 in 1995; with an additional \$4,129,950 added in 1997; interest at 3.222%; annual payments of principal and interest of \$1,036,565 through 2037	\$ 291,545	745,020	22,831,367
Block Notice Prepayment – issued in the original amount of \$65,485,331 in 1997. This amount represents a prepayment of \$35,500,000 toward existing Block Notices, which is the present value of \$112,212,700, as if paid in annual payments consisting of principal in the amount of \$65,485,331 and interest in the amount of \$46,727,369. The \$112,212,700 will be applied against the District's total outstanding contractual Block Notice obligation as 50 annual credits of \$2,244,254	(737,476)	(1,506,778)	(59,606,328)
Block Notice Prepayment – issued in the original amount of \$127,626,496 in 1998. This amount represents a prepayment of \$98,332,476 toward existing Block Notices, which is the present value of \$237,146,339, as if paid in annual payments consisting of principal in the amount of \$127,626,496 and interest in the amount of \$109,519,843. The \$237,146,339 will be applied against the District's total outstanding contractual Block Notice obligation as 50 annual credits at various amounts. The District will also receive various additional credits totaling \$3,495,518 through 2004	(2,103,503)	(4,297,787)	(117,706,803)

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Block Notice Prepayment – issued in the original amount of \$12,557,102 in 2000. This amount represents a prepayment of \$4,260,556 toward existing Block Notices, which is the present value of \$24,066,286, as if paid in annual payments consisting of principal in the amount of \$12,557,102 and interest in the amount of \$11,509,184. The \$24,066,286 will be applied against the District's total outstanding contractual Block Notice obligation as 47 annual credits at various amounts	\$ (128,222)	(373,160)	(11,453,403)
Block Notice Prepayment – issued in the original amount of \$41,333,796 in 2003. This amount represents a prepayment of \$20,131,736 toward existing Block Notices, which is the present value of \$76,395,713, as if paid in annual payments consisting of principal in the amount of \$41,333,796 and interest in the amount of \$35,061,917. The \$76,395,713 will be applied against the District's total outstanding contractual Block Notice obligation as 45 annual credits at various amounts	(434,159)	(1,263,524)	(38,781,347)
Block Notice Prepayment – issued in the original amount of \$234,524,940 in 2005. This amount represents a prepayment of \$72,449,940 toward existing Block Notices, which is the present value of \$423,405,366, as if paid in annual payments consisting of principal in the amount of \$234,524,940 and interest in the amount of \$188,883,926. The \$234,524,940 will be applied against the District's total outstanding contractual Block Notice obligation as 43 annual credits at various amounts	(9,589,787)	(256,919)	(224,935,153)



# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Jensen Unit, Central Utah Project repayment contract – issued in the original amount of \$1,885,501 in 1988; interest at 3.222%; annual payments of principal and interest of \$77,039 through 2049	\$ 27,053	49,985	1,524,320
Water Conservancy Revenue Bonds (1994 B Series) – issued in the original amount of \$4,510,000 in October 1994; interest at 0.0%; various installments of principal through 2014	—	—	4,510,000
Water Conservancy Revenue Bonds (1997 Series) – issued in the original amount of \$20,205,000 in October 1996; interest at 3.75% to 5.75%; interest payable semiannually beginning October 1, 1997 and thereafter on each April 1 and October 1 through 2021; various installments of principal through 2021; \$10,445,000 defeased in 2002 and called on October 1, 2007 at 101% plus accrued interest	570,000	334,566	5,850,000
Water Conservancy Revenue Bonds (1998 A Series) – issued in the original amount of \$5,650,000 in 1998; interest at 3.80% to 5.25%; interest payable semiannually beginning October 1, 1998 and thereafter on each April 1 and October 1 through 2009; various installments of principal through 2009	590,000	226,180	4,180,000

# **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

## **Notes to Basic Financial Statements**

**June 30, 2005**

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
<p><b>Water Conservancy Revenue Bonds</b>            (1998 B and C Series) – issued in the            original amount of \$840,000 and            \$1,300,000 B and C bonds, respectively,            in 1998. Interest on B bonds is 0%.            Interest at 5.75% on C bonds, payable            semiannually beginning October 1, 1998            and thereafter on each April 1 and            October 1 through 2023. Various            installments of B bonds begin in 2024            and conclude in 2028</p>	\$ 22,000	71,300	2,058,000
<p><b>General Obligation (1998 D Limited            Tax) Prepayment Bonds</b> – issued in            the original amount of \$50,780,000 in            1999; interest at a variable rate basis,            which adjusts with LIBOR, pursuant            to the swap agreement, not to exceed            5.50% with reciprocal payments            from AFSLP at a fixed rate of            4.91%; interest payable semiannually            beginning April 1, 1999 and thereafter            on each April 1 and October 1 through            2027; however, the swap agreement            discussed in note 5(a) requires monthly            interest payments; various installments            of principal through 2027</p>	2,370,000	1,634,360	32,670,000

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
General Obligation (1998 E Limited Tax) Refunding Bonds – issued in the original amount of \$59,510,000 in 1999; interest at a fixed rate of 4.68% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR pursuant to the Swap Agreement; interest payable semiannually beginning April 1, 1999 and thereafter on each April 1 and October 1 through 2027; however, the swap agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2027	\$ —	2,785,068	59,510,000
General Obligation (1998 F Limited Tax) Refunding Bonds – issued in the original amount of \$36,255,000 in 1998; variable interest rate, which adjusts with LIBOR with the Cap Provider to make to the District on a variable rate basis on an amount equal to the principal amount if and when the variable interest rate borne by the bonds exceeds 5.15% pursuant to the Cap Agreement; interest payable semiannually beginning April 1, 1999 and thereafter on each April 1 and October 1 through 2027; however, the Cap Agreement discussed in note 5(b) requires monthly interest payments; various installments of principal through 2027	575,000	1,306,200	30,425,000

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Water Conservancy Revenue Bonds (2002A-1 Series) – issued in the original amount of \$11,445,000 in 2002; interest at a fixed rate of 4.17% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR pursuant to the Swap Agreement; interest payable semiannually beginning October 1, 2002 and thereafter on each April 1 and 2021; however, the swap agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2021	\$ 100,000	466,137	11,145,000
Water Conservancy Revenue Bonds (2002A Series) – issued in the original amount of \$20,000,000 in 2003; interest at a fixed rate of 3.8% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to the Swap Agreement; interest payable semiannually beginning April 1, 2003 and thereafter on each October 1 and April 1 through 2032; however, the swap agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2032	100,000	764,280	19,700,000
General Obligation (2003 Series) Refunding Bonds – issued in the original amount of \$8,730,000, plus \$190,274 reoffering premium in 2004. Interest at 2.0% to 4.0%, payable semiannually beginning April 1, 2004 and thereafter on each April 1 and October 1 through 2014.	715,000	273,963	7,605,274

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Water Conservancy Revenue Bonds (2005A Series) – issued in the original amount of \$5,800,000 in 2005. Interest at 3.9% to 4.4%, payable semiannually beginning October 1, 2005 and thereafter on each April 1 and October 1 through 2009,	\$ —	—	5,800,000
Water Conservancy Revenue Bonds (2005B Series) – issued in the original amount of \$20,825,000, plus \$1,271,025 reoffering premium in 2005. Interest at 3.5% to 5.0%, payable semiannually beginning October 1, 2005 and thereafter on each April 1 and October 1 through 2002.	—	—	22,127,720
Water Conservancy Revenue Bonds (2005C Series) – issued in the original amount of \$33,100,000 in 2005; interest at a fixed rate of 3.482% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to the Swap Agreement; interest payable semiannually beginning October 1, 2005 and thereafter on each October 1 and April 1 through 2035; however, the swap agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2032	—	—	33,100,000

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
Water Conservancy Revenue Bonds (2005D Series) – issued in the original amount of \$20,000,000 in 2005; variable interest, which adjusts with BMA with the Cap Provider to make the District on a variable rate basis on an amount if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to the Cap Agreement; interest payable semiannually beginning October 1, 2005 and thereafter on each October 1 and April 1 through 2035 however, the Cap Agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2027	\$ —	—	20,000,000
General Obligation (2004 A Series) Refunding Bonds – issued in the original amount of \$54,277,000, plus \$3,694,421 reoffering premium in 2005. Interest at 3.0% to 5.0%, payable semiannually beginning April 1, 2005 and thereafter on each April 1 and October 1 through 2022.	—	1,154,063	57,969,921

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

	<u>2005 payments</u>		<u>Principal balances at June 30, 2005</u>
	<u>Principal</u>	<u>Interest</u>	
General Obligation (2004 B Series) Refunding Bonds – issued in the amount of \$64,500,000 in 2005; interest at a fixed rate of 4.348% with reciprocal payments from AFSLP to the District on a variable rate basis, which adjusts with LIBOR, pursuant to the Swap Agreement; interest payable semiannually beginning April 1, 2005 and thereafter on each October 1 and April 1 through 2030; however, the swap agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2032	\$ —	1,058,326	65,400,000
General Obligation (2004 C Series) Refunding Bonds – issued in the amount of \$42,400,000 in 2005; variable interest, which adjusts with BMA with the Cap Provider to make the District on a variable rate basis on an amount if and when the variable interest rate borne by the bonds exceeds 6.0% pursuant to the Cap Agreement; interest payable semiannually beginning April 1, 2005 and thereafter on each October 1 and April 1 through 2034 however, the Cap Agreement discussed in note 5(a) requires monthly interest payments; various installments of principal through 2027	—	568,160	42,400,000
Total	\$ <u>5,134,483</u>	<u>10,693,088</u>	<u>432,506,185</u>

Annual principal maturities on the repayment obligations and related interest using interest rates as of June 30, 2005 for the five years subsequent to June 30, 2005 and thereafter for contracts and block notices and general obligation and revenue bonds, including net interest rate swap impact are as follows:

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### *Contracts and Block Notices*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 99,055	49,114	148,169
2007	99,955	48,214	148,169
2008	100,884	47,285	148,169
2009	101,843	46,326	148,169
2010	102,832	45,337	148,169
2011-2015	530,155	210,690	740,845
2016-2020	560,138	180,707	740,845
2021-2025	4,409,185	145,569	4,554,754
2026-2030	543,348	104,396	647,744
2031-2035	591,595	56,149	647,744
2036-2040	409,490	7,138	416,628
2041-2045	262,550	—	262,550
2046-2050	215,740	—	215,740
2051-2055	28,500	—	28,500
Total	\$ 8,055,270	940,925	8,996,195

### *General Obligation and Revenue Bonds*

Excel foots to this number. Your number is \$8,489,405

Using rates as of June 30, 2005, debt service requirements of the variable-rate and fixed-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Fiscal year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swaps, net</u>	<u>Total</u>
2006	\$ 6,991,000	17,212,377	1,389,635	25,593,012
2007	7,285,000	17,375,287	1,414,142	26,074,429
2008	8,114,000	16,976,496	1,345,577	26,436,073
2009	8,553,000	16,542,374	1,279,653	26,375,027
2010	10,338,000	16,157,455	1,305,875	27,801,330
2011-2015	65,603,915	74,177,975	6,750,231	146,532,121
2016-2020	68,475,000	60,616,356	7,511,407	136,602,763
2021-2025	87,401,000	42,986,300	7,745,282	138,132,582
2026-2030	91,690,000	22,292,080	4,040,634	118,022,714
2031-2035	70,000,000	6,705,145	663,080	77,368,225
	\$ 424,450,915	291,041,845	33,445,516	748,938,276



## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

#### (6) SWAP Agreements

##### *Series 1998D Bonds*

*Objective of the Interest Rate Swap.* The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt.

*Terms.* In November 2000, the District entered into a pay-variable, receive-fixed interest rate swap for a portion of its \$50,780,000 Series 1998D General Obligation (Limited Tax) Bonds, which were originally issued in a fixed rate mode. Under the terms of the swap, which has a notional amount of \$17,805,000 and an expiration date of April 1, 2011, the District pays a variable rate equivalent to the Bond Market Association Municipal Swap Index™ (BMA), which was 2.28% as of June 30, 2005, and receives fixed rate payments of 4.91%. During the life of the swap, there are no reductions in the notional amount. The District paid swap fees of five basis points at initiation. The District also purchased an interest rate cap at 5.50%, which expires on October 1, 2005, to mitigate its variable rate exposure.

*Fair Value.* As of June 30, 2005, the swap had a fair value of \$1,733,570 calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

*Credit Risk.* The swap's fair value represented the District's credit exposure to AFSLP as of June 30, 2005. Should AFSLP fail to perform according to the terms of the Swap Agreement, the District faced a maximum possible loss equivalent to the swap's \$1,733,570 fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

*Interest Rate Risk.* The swap increases the District's exposure to variable rates. However, this risk has been hedged with an interest rate cap that will not allow the variable rate paid by the District to exceed 5.50%, subject to certain terms and conditions, through October 1, 2005. As the BMA increases, the District's net payment on the swap increases.

*Termination Risk.* The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent, and the party owing the fair value will pay the fair value to the party due the fair value.

*Rollover Risk.* The District is not exposed to rollover risk on its swap for the Series 1998D Bonds, as the swap matures at the same time as the corresponding debt.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

#### ***Series 1998E Bonds***

***Objective of the Interest Rate Swap.*** The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable rate bonds and immediately swapping them into a fixed rate payment mode.

***Terms.*** In December 1998, the District entered into a pay-fixed, receive-variable interest rate swap for the remaining term of its \$59,510,000 Series 1998 General Obligation (Limited Tax) Variable Rate Bonds. Under the terms outlined in the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement), the District will pay a fixed rate of 4.68% (which amount includes 0.25% per annum payable under the Liquidity Assurance Agreement between AFSLP and the District) and will receive variable rate payments which shall equal the actual variable rate paid by the District on the Series 1998E Bonds. Beginning in fiscal year 2010, the notional amount of the swap and the principal amount of the Series 1998E Bonds begin to decline because of scheduled principal reductions. The District paid swap fees of five basis points at initiation.

***Fair Value.*** As of June 30, 2005, the swap had a negative fair value of \$(6,620,794) calculated under the terms and conditions of the Swap Agreement. AFSLP is the Calculation Agent.

***Credit Risk.*** As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

***Interest Rate Risk.*** The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through April 2027 while receiving a variable rate from AFSLP, thus offsetting the District's variable rate payments to the bondholders.

***Termination Risk.*** The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

***Rollover Risk.*** The District is not exposed to rollover risk on its swap for the Series 1998E Bonds, as the swap matures at the same time as the corresponding debt.

#### ***Series 1998F Bonds***

***Objective of the Cap Agreement.*** In December 1998, the District issued its \$36,255,000 General Obligation (Limited Tax) Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

*Terms.* The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 5.15% (the Cap Agreement) for \$283,916. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the Strike Price if the BMA exceeds the Strike Price for a consecutive period of one month or longer. The original cap was extended at expiration of March 31, 2004 to extend through March 31, 2009. As of June 30, 2005, the District had not received any payments from Morgan because interest rates had not exceeded the Strike Price for a period of one consecutive month.

*Credit Risk.* The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2005. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

*Termination Risk.* The District and Morgan may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

*Rollover Risk.* The District is not exposed to rollover risk on its swap for the Series 1998F Bonds at June 30, 2005, as the Cap Agreement was extended to 2009.

#### **Series 2002A Revenue Bonds**

*Objective of the Interest Rate Swap.* The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable rate bonds and immediately swapping them into fixed rate payment.

*Terms.* In March 2002, the District issued its \$11,445,000 Series 2002A Variable Rate Revenue Refunding Bonds. At the closing, the District also entered into an interest rate swap with AFSLP for a notional amount equaling the principal amount of the Series 2002A Bonds. The swap will expire on October 1, 2007, and while in effect, AFSLP will pay to the District the variable rate the District pays on the bonds and the District will pay to AFSLP a fixed rate of 4.17%. Beginning in fiscal year 2003, the principal amount of the Series 2002A Bonds and the notional amount of the swap decreased as a result of scheduled principal payments.

*Fair Value.* As of June 30, 2005, the swap had a negative fair value of \$(277,218) calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

**Credit Risk.** As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

**Interest Rate Risk.** The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through April 2007 while receiving a variable rate from AFSLP, thus offsetting the District's variable rate payments to the bondholders. After that date, which is the Swap Termination Date, the Series 2002A Bonds will revert to a variable rate obligation.

**Termination Risk.** The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

**Rollover Risk.** The District is exposed to rollover risk on the Series 2002A Revenue Bonds as the swap matures on October 1, 2007. Accordingly, the District will be exposed to variable interest rate risk following expiration of the swap.

#### **Series 2002A General Obligation Bonds**

**Objective of the Interest Rate Swap.** The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt. In this instance, the District entered into two simultaneous interest rate swaps.

**Terms.** In September 2002, the District issued its \$20,000,000 General Obligation (Limited Tax) Refunding Bonds with a final maturity of April 1, 2032. Simultaneously, the District entered into an interest rate swap in which AFSLP pays to the District a variable rate equal to the rate paid by the District on the 2002A Bonds and the District pays to AFSLP a fixed rate in the amount of 3.82% for the life of the bonds. In addition, the District also entered into a forward starting swap where the District will pay the BMA the same rate paid by the District on the bonds, and will receive from AFSLP a fixed rate in the amount of 4.47%. The latter swap will begin on October 1, 2007. The net effect of the two swaps is that for the first five years the District will pay a fixed rate of 3.82% and beginning on October 1, 2007, the District will pay a variable rate less the difference between the two fixed rate swaps (it is paying the lower of the fixed rates swaps or 3.82% and receiving the higher of the two fixed rate swaps or 4.47%) of approximately 65 basis points. The District paid swap fees of five basis points at initiation.

**Fair Value.** As of June 30, 2005, the 3.82% variable to fixed rate swap had a negative fair value of \$(887,379) calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). As of the same date, the fair value of the 4.47% fixed to variable rate swap was \$0 because it is not yet effective. The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

**Credit Risk.** As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

**Interest Rate Risk.** The swap mitigates the District's exposure to variable interest rate risk through October 1, 2007. After October 1, 2007, the swap increases the District's exposure to variable rates. However, this risk has been hedged by the two offsetting fixed rate payments, thus partially reducing the District's ultimate variable rate risk by approximately 65 basis points.

**Termination Risk.** The District may terminate either swap at any time. AFSLP may terminate either swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap to be terminated will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

**Rollover Risk.** The District is not exposed to rollover risk on its swap for the Series 2002A General Obligation Bonds, as the swap matures at the same time as the corresponding debt.

#### **Series 2004B Bonds**

**Objective of the Interest Rate Swap.** The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt.

**Terms.** In November 2004, the District entered into a pay-variable, receive-fixed interest rate swap for its Series 2004B General Obligation (Limited Tax) Bonds, which were originally issued in a fixed rate mode. Under the terms of the swap, which has a notional amount of \$65,400,000 and an expiration date of April 1, 2011, the District pays a variable rate equivalent to the Bond Market Association Municipal Swap Index™ (BMA), which was 2.28% as of June 30, 2005, and receives fixed rate payments of 4.91%. During the life of the swap, there are no reductions in the notional amount. The District paid swap fees of five basis points at initiation.

**Fair Value.** As of June 30, 2005, the swap had a negative fair value of \$(5,352,123) calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

**Credit Risk.** The swap's fair value represented the District's credit exposure to AFSLP as of June 30, 2005. Should AFSLP fail to perform according to the terms of the Swap Agreement, the District faced a maximum possible loss equivalent to the swap's \$(5,352,123) fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

*Interest Rate Risk.* The swap increases the District's exposure to variable rates. However, this risk has been hedged with an interest rate cap that will not allow the variable rate paid by the District to exceed 5.50%, subject to certain terms and conditions, through October 1, 2005. As the BMA increases, the District's net payment on the swap increases.

*Termination Risk.* The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent, and the party owing the fair value will pay the fair value to the party due the fair value.

*Rollover Risk.* The District is not exposed to rollover risk on its swap for the Series 1998D Bonds, as the swap matures at the same time as the corresponding debt.

#### *Series 2004C Bonds*

*Objective of the Cap Agreement.* In November 2004, the District issued its \$42,400,000 General Obligation (Limited Tax) Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

*Terms.* The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 6.0% (the Cap Agreement) for \$197,000. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the Strike Price if the BMA exceeds the Strike Price for a consecutive period of one month or longer. The cap was issued with an expiration of March 31, 2027. As of June 30, 2005, the District had not received any payments from Morgan because interest rates had not exceeded the Strike Price for a period of one consecutive month.

*Credit Risk.* The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2005. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

*Termination Risk.* The District and Morgan may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

*Rollover Risk.* The District is not exposed to rollover risk on its swap for the Series 2004C Bonds at June 30, 2005, as the Cap Agreement extends through 2027.

#### *Series 2005C Revenue Bonds*

*Objective of the Interest Rate Swap.* The District's long-term debt strategy is to maintain a mixture of fixed and variable rate debt to take advantage of the two markets in order to effectively manage its debt. In this particular case, the objective was to take advantage of the disparity between the long-term pricing of cash bonds versus that of a synthetic fixed rate accomplished by issuing variable rate bonds and immediately swapping them into fixed rate payment.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

**Terms.** In May 2005, the District issued its \$33,100,000 Series 2005C Variable Rate Revenue Refunding Bonds. At the closing, the District also entered into an interest rate swap with AFSLP for a notional amount equaling the principal amount of the Series 2005C Bonds. The swap will expire on March 31, 2032, and while in effect, AFSLP will pay to the District the variable rate the District pays on the bonds and the District will pay to AFSLP a fixed rate of 3.482%.

**Fair Value.** As of June 30, 2005, the swap had a negative fair value of \$(2,069,592) calculated under the terms and conditions of the ISDA Master Agreement with its accompanying Schedule and Confirmation (the Swap Agreement). The swap provider, Ambac Financial Services, Limited Partnership (AFSLP), is the Calculation Agent.

**Credit Risk.** As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change in the future and the fair value of the swap becomes positive, the District would be exposed to credit risk on the swap in the amount of its fair value. The obligations of AFSLP are covered by an insurance policy issued by Ambac Assurance Corporation (Ambac). As of June 30, 2005, Ambac was rated Aaa/AAA by Moody's Investors Service and Standard and Poor's, respectively. To mitigate credit risk, if Ambac's credit quality falls below Aa/AA, respectively, the fair value of the swap will be fully collateralized with U.S. government securities. Collateral would be posted with the Trustee.

**Interest Rate Risk.** The swap decreases the District's exposure to variable interest rates. The District is committed to pay a fixed rate through March 2032 while receiving a variable rate from AFSLP, thus offsetting the District's variable rate payments to the bondholders. After that date, which is the Swap Termination Date, the Series 2005C Bonds will revert to a variable rate obligation.

**Termination Risk.** The District may terminate the swap at any time. AFSLP may terminate the swap if the District fails to perform under the terms of the Swap Agreement. At the time of termination, the fair value of the swap will be calculated by the Calculation Agent and the party owing the fair value will pay the fair value to the party due the fair value.

**Rollover Risk.** The District is exposed to rollover risk on the Series 2005C Revenue Bonds as the swap matures on March 31, 2005. Accordingly, the District will be exposed to variable interest rate risk following expiration of the swap.

#### **Series 2005D Revenue Bonds**

**Objective of the Cap Agreement.** In May 2005, the District issued its \$20,000,000 Revenue Refunding Variable Rate Bonds. In order to hedge its variable interest rate risk, the District purchased an interest rate cap.

**Terms.** The District purchased an interest rate cap from Morgan Guaranty Trust (Morgan) with a strike price of 6.0% (the Cap Agreement) for \$49,500. Under the terms of the cap, Morgan must pay the District the difference between the BMA and the Strike Price if the BMA exceeds the Strike Price for a consecutive period of one month or longer. The original cap was issued with an expiration of March 31, 2027. As of June 30, 2005, the District had not received any payments from Morgan because interest rates had not exceeded the Strike Price for a period of one consecutive month.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

*Credit Risk.* The cap's purchase price represented the District's credit exposure to Morgan as of June 30, 2005. In the event that Morgan does not perform under the terms and conditions of the Cap Agreement, the District is potentially exposed to the full amount of the purchase price of the cap.

*Termination Risk.* The District and Morgan may terminate the swap if the other party fails to perform under the terms and conditions of the Cap Agreement. The cap may be terminated by the District if Morgan's credit rating falls below "A-" by Fitch Ratings or Standard and Poor's Corporation or "A3" by Moody's Investors Service. The agreement does not provide for any termination fees.

*Rollover Risk.* The District is not exposed to rollover risk on its swap for the Series 2005D Bonds at June 30, 2005, as the Cap Agreement extends through 2027.

#### (7) Fund Balance

During 1993, the Board terminated the United States Repayment Reserve and established a contingency fund in the amount of \$1,500,000 in the Capital Projects Fund, with interest thereon, and annual contributions of \$500,000 until the balance reaches \$10,000,000. At June 30, 2005, the balance of the related fund was \$8,675,313, which is included in the future capital project designation in the accompanying governmental funds balance sheet. At June 30, 2005, the balance of the assets designated by the Board to the Capital Projects Fund for future projects was \$10,449,472, which consisted of repurchase agreements and Utah Public Treasurer's Investment Fund assets. Projects in process include the District's expansion of its Utah Valley Water Treatment Plant in Utah County to an output production of 120 million gallons per day. The additional plant capacity will serve customers in the present treatment plant service area and in North Utah County.

The District is required under a contract with the Bureau dated December 28, 1965 to establish a Replacement Reserve Fund and an Emergency Reserve Fund for operations and maintenance as development block notices are issued. The contract requires that these funds shall be maintained apart from other District funds. Withdrawal, investment, or other dispositions are subject to the approval of the appropriate United States Contracting Officer. The Replacement Reserve Fund shall be used for replacement of project works such as buildings, short-wave radio facilities, and pumping plants of the District. The Emergency Reserve Fund for operations and maintenance shall be used for payment of the District's share of extraordinary costs of operations and maintenance, and shall be accumulated by the District until the aggregate reserve funds total \$1,000,000 each. During the year ended June 30, 2002, \$1,741,602 was withdrawn from the reserves to help fund the repair of the Alpine Aqueduct Reach 1. Funds will be repaid to the reserves in accordance with contract provisions. At June 30, 2005, the balance of the restricted assets for each of the preceding reserve funds was \$435,490.

During 1992, the Board authorized the creation of a Liability Insurance Reserve to provide for the District's self-insurance needs for auto, theft, burglary, fire, and other such claims. The reserve balance was established at \$1,000,000 and accrues interest to the fund. The District will budget up to \$200,000 annually to replenish the fund when it drops below \$1,000,000. The fund will provide for property, machinery, and insurance premiums, as well as other self-insurance needs. At June 30, 2005, the balance of the restricted assets for these funds was \$1,822,346, with no related liabilities outstanding.



# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### (8) Interfund Transfers

Interfund transfers for the year ended June 30, 2005 consisted of the following:

	Transfers to			Total
	CUPCA Fund	Debt Service Fund	Capital Projects Fund	
Transfers from General Fund	\$ —	12,043,640	17,081,541	29,125,181

Amounts transferred to the CUPCA Fund are used for ongoing activities to complete the Central Utah Project. Amounts transferred to the Debt Service Fund are used for debt principal and interest payments. Amounts required to cover reserved and designated fund balances in the General Fund are retained in the General Fund, with any excess available amounts transferred to the Capital Projects Fund.

### (9) Treatment Plant Operating Agreement

The District has entered into an agreement in which the District has granted and delegated complete authority and responsibility to the Jordan Valley Water Conservancy District (JVWCD), formerly Salt Lake County Water Conservancy District, and the Metropolitan Water District of Salt Lake City and Sandy (MWD) for operation and maintenance of the District's Jordan Valley Water Treatment Plant (JVWTP) and Jordan Terminal Reservoir in 1993, which provides for the District to convey title to JVWTP and Jordan Terminal Reservoir without further consideration to the JVWCD and the MWD by special warranty deed upon Jordanelle Reservoir becoming fully operational (when United States Bureau of Reclamation block notices total 50,000 acre-feet) or upon completion of the Jordan Terminal Reservoir expansion, whichever occurs later. Under the terms of the agreement, the JVWCD will own approximately 71.4% and MWD will own 28.6% of JVWTP and Jordan Terminal Reservoir. The conveyance of title to the JVWTP and Jordan Terminal Reservoir is expected to be made in fiscal year 2005.

### (10) Central Utah Project Completion Act

On October 30, 1992, the Central Utah Project Completion Act (P.L. 102-575, [106 Stat. 4600]) (the Act) was signed into federal law. The Act authorized approximately \$924,000,000 in federal funds to complete water projects in the ten-county area included in the Central Utah Water Conservancy District. The District must petition Congress for funding on a year-to-year basis and must provide a 35% cost share to match the reimbursable share of the federal portion. The federal reimbursement for the year ended June 30, 2005 totaled \$29.9 million.

The Act gives the District the authority to oversee the planning, design, management, and construction of the remaining facilities of the Central Utah Project; however, the U.S. Department of the Interior retains ownership. The Act emphasizes District-wide public involvement, addresses protection and enhancement of the environment, and creates stream flow levels to protect present and future fisheries. The Act also calls for significant water conservation programs and specific water management plans.

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

### Notes to Basic Financial Statements

June 30, 2005

#### (11) Retirement Plans

The District contributes to the Local Government Noncontributory Retirement System, which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (the System). The System provides refunds, retirement benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The System was established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (the Retirement Board) whose members are appointed by the Governor. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Local Government Contributory Retirement System and Local Government Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

#### *Funding Policy*

In the Local Government Noncontributory Retirement System, the District is required to contribute 8.69% of plan members' annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the System are authorized by statute and specified by the Retirement Board.

The District's contributions to the Local Government Noncontributory Retirement System for the year ended June 30, 2005 was \$408,860.

Under the Internal Revenue Code Section 401(k), the District participates in a defined contribution plan for employees enrolled in the Utah Retirement Noncontributory System. The contributions are required by state law and all contributions have been made on their monthly due dates. This plan covers all employees within the noncontributory system as described above. The District's contributions for the year ended June 30, 2005 was \$57,555. These contributions represent 3.6% of covered salaries and they vest immediately. They may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Notes to Basic Financial Statements

June 30, 2005

### (12) Postretirement Health Care Benefits

The District provides postretirement health care benefits at no cost to employees hired before July 1, 1994. The Plan is accounted for in accordance with the requirements of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. These benefits are available to all eligible employees retiring from the District. These benefits cover paid health insurance premiums, at retirement, at a rate wherein each eight (8) hours of the employee's accrued sick leave covers one month of paid health insurance for the employee and his/her spouse. The following table presents the Plan's funded status reconciled with amounts recognized in the District's balance sheet at June 30, 2005:

Accumulated postretirement benefit obligation:	
Active plan participants and retirees	\$ 2,231,100
Plan assets at fair value	<u>—</u>
	2,231,100
Unrecognized gain from past expense different from that assumed and from changes in assumptions	<u>743,600</u>
Postretirement benefit liability	<u><u>\$ 1,487,500</u></u>

Net periodic postretirement benefit cost for 2005 includes the following components:

Service cost	\$ 78,300
Interest cost	104,000
Amortization of unrecognized net loss	<u>22,300</u>
Net periodic postretirement benefit cost	<u><u>\$ 204,600</u></u>

For measurement purposes, a 10.1% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2003 for payments prior to the age of 65 and 4.6% for payments after age 64. For fiscal year 2005, the rate was assumed to increase to 10% for all payments independent of age, then decrease gradually to 5% by the fiscal year 2009 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 2005 by \$260,900 and the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for the year then ended by \$31,800.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2005**

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2005 was 5.5%.

**(13) Contingencies**

The District is subject to certain routine litigation, claims, and commitments incident to the ordinary course of business. The District's management believes that the probable resolution of such contingencies will not significantly impact the financial position or results of operations of the District.

Also, the District is self-insured for auto, theft, burglary, fire, and other such claims. However, as no claims have been filed against the District in the previous two years, no insurance-related liability has been recorded in the basic financial statements.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**

**General Fund**

**Year ended June 30, 2005**

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget – positive (negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes	\$ 27,057,084	27,057,084	27,143,075	85,991
Water sales	10,178,257	10,178,257	9,901,468	(276,789)
Interest	142,800	142,800	318,266	175,466
Other	—	—	146,824	146,824
<b>Total revenues</b>	<b>37,378,141</b>	<b>37,378,141</b>	<b>37,509,633</b>	<b>131,492</b>
<b>Expenditures:</b>				
Administrative and general	5,229,782	5,229,782	3,968,994	1,260,788
District projects	1,521,390	1,521,390	1,094,001	427,389
Capital outlay	2,568,000	2,568,000	565,318	2,002,682
Water treatment plants and other projects	1,516,105	1,516,105	1,375,247	140,858
Central Utah Project operation and maintenance	1,989,494	1,989,494	1,885,431	104,063
<b>Total expenditures</b>	<b>12,824,771</b>	<b>12,824,771</b>	<b>8,888,991</b>	<b>3,935,780</b>
<b>Excess of revenues over expenditures</b>	<b>24,553,370</b>	<b>24,553,370</b>	<b>28,620,642</b>	<b>4,067,272</b>
<b>Other financing uses:</b>				
Transfers out	(25,226,628)	(25,226,628)	(29,125,181)	(3,898,553)
<b>Net changes in fund balance</b>	<b>(673,258)</b>	<b>(673,258)</b>	<b>(504,539)</b>	<b>168,719</b>
<b>Fund balance – beginning</b>	<b>5,920,243</b>	<b>5,920,243</b>	<b>5,920,243</b>	<b>—</b>
<b>Fund balance – ending</b>	<b>\$ 5,246,985</b>	<b>5,246,985</b>	<b>5,415,704</b>	<b>168,719</b>

See accompanying note to required supplementary information.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**

**CUPCA Fund**

**Year ended June 30, 2005**

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget – positive (negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Interest	\$ 402,000	402,000	617,908	215,908
Federal funding	28,372,000	28,372,000	29,865,000	1,493,000
Other	8,743,000	8,743,000	—	(8,743,000)
Total revenues	37,517,000	37,517,000	30,482,908	(7,034,092)
Expenditures:				
CUPCA activities	37,520,000	37,520,000	25,320,138	12,199,862
Excess (deficiency) of revenues over expenditures	(3,000)	(3,000)	5,162,770	5,165,770
Other financing sources:				
Transfers in	—	—	—	—
Net changes in fund balance	(3,000)	(3,000)	5,162,770	5,165,770
Fund balance – beginning	32,008,067	14,408,067	23,126,252	8,718,185
Fund balance – ending	\$ 32,005,067	14,405,067	28,289,022	13,883,955

See accompanying note to required supplementary information.

## **CENTRAL UTAH WATER CONSERVANCY DISTRICT**

### **Note to Required Supplementary Information**

**June 30, 2005**

#### **Budget Operation**

The District operates within the budget requirements for special districts as specified by state law. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning July 1, the District controller prepares departmental budgets, which are reviewed by staff and then the Board's standing committees. Following this review, a tentative budget is prepared which is reviewed by the finance committee, and finally by the Board, generally by the Board meeting held in May of the preceding year.
- By state laws, the Board legally adopts the final budget after a public hearing has been held.
- Once adopted, the budget can be amended by subsequent Board action. Reductions in or reallocations of appropriations can be approved by the Board, but increased appropriations by fund require a public hearing prior to amending the budget.
- Interim adjustments in estimated revenue and appropriations during the year ended June 30, 2005 have been included in the final budget approved by the Board, as presented in the basic financial statements.
- The level for which expenditures may not legally exceed appropriations is the total budget of a given fund.
- As required by Utah state law, budgets for the General Fund and the Debt Service Fund are prepared and adopted on a GAAP basis of accounting.
- At the end of a year, unencumbered appropriations lapse.
- All funds at the District have legally adopted budgets.

CENTRAL UTAH WATER CONSERVANCY DISTRICT  
355 W UNIVERSITY PKWY  
OREM, UT 84058





**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Single Audit

June 30, 2005

(With Independent Auditors' Reports Thereon)

## CENTRAL UTAH WATER CONSERVANCY DISTRICT

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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Board of Trustees  
Central Utah Water Conservancy District:

We have audited the financial statements of Central Utah Water Conservancy District (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Finance Committee, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2005

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**Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133**

The Honorable Board of Trustees  
Central Utah Water Conservancy District:

**Compliance**

We have audited the compliance of Central Utah Water Conservancy District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2005

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

**Supplementary Schedule of Expenditures of Federal Awards**

**Year ended June 30, 2005**

<b>Federal grantor/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Pass-through grantor's number</b>	<b>Expenditures</b>
Department of the Interior:			
Central Utah Project Completion Act	15. Unknown	n/a	\$ 25,643,991
Red Butte Dam Restoration	15. Unknown	n/a	<u>761,966</u>
Total expenditures of federal awards			<u>\$ 26,405,957</u>

See accompanying notes to supplementary schedule of expenditures of federal awards.

**CENTRAL UTAH WATER CONSERVANCY DISTRICT**

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

The following are the notes to the supplementary schedule of expenditures of federal awards:

- ***Basis of Accounting*** – The accompanying supplementary schedule of expenditures of federal awards is prepared on the modified-accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources.
- ***Reporting Entity*** – For purposes of the supplementary schedule of expenditures of federal awards, the District includes all the funds of the primary government as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

# CENTRAL UTAH WATER CONSERVANCY DISTRICT

## Schedule of Findings and Questioned Costs

Year ended June 30, 2005

### (1) Summary of Auditors' Results

- (a) We have issued an unqualified opinion in our report on the basic financial statements of Central Utah Water Conservancy District (the District) for the year ended June 30, 2005. The results of our audit disclosed no reportable conditions in internal control.
- (b) The results of our audit disclosed no instances of noncompliance.
- (c) We issued an unqualified opinion in our report on compliance for major programs for the year ended June 30, 2005. The results of our audit disclosed no reportable conditions in internal control over major programs.
- (d) The results of our audit disclosed no audit findings that are required to be reported under OMB Circular A-133.
- (e) The dollar threshold used to distinguish between Type A and Type B programs was \$792,179.
- (f) The major programs of the District for the year ended June 30, 2005 are as follows:

Program	CFDA#	Expenditures
Central Utah Project Completion Act	15. unknown	\$ 25,643,991
Red Butte Dam Restoration	15. unknown	761,966

- (g) The District qualified as a low-risk auditee.
- (h) The District does not provide federal funding to subrecipients; however, in accordance with the CUP Completion Act, *Project Features Description Manual*, the District reimburses certain governmental entities for expenses incurred working on a CUP Completion Act project.

### (2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

### (3) Findings and Questioned Costs Relating to Federal Awards

We noted no findings or questioned costs during the course of our work.





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**Independent Auditors' Report  
on State Legal Compliance in Accordance with  
State of Utah Legal Compliance Audit Guide**

The Honorable Board of Trustees  
Central Utah Water Conservancy District:

We have audited the financial statements of Central Utah Water Conservancy District (the District) for the year ended June 30, 2005 and have issued our report thereon, dated September 15, 2005. As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance, if applicable, with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Special Districts
- Other general compliance issues

The District did not receive any major or nonmajor state grants during the year ended June 30, 2005.

Management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the District, complied, in all material respects, with the general compliance requirements governing types of services allowed or unallowed; eligibility, matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

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This report is intended solely for the information and use of the Finance Committee, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 20, 2005